



**DEPARTMENT OF INSURANCE, FINANCIAL
INSTITUTIONS AND PROFESSIONAL REGISTRATION**

P.O. Box 690, Jefferson City, Mo. 65102-0690

RE: Examination Report of Old American Insurance Company as of December 31, 2005

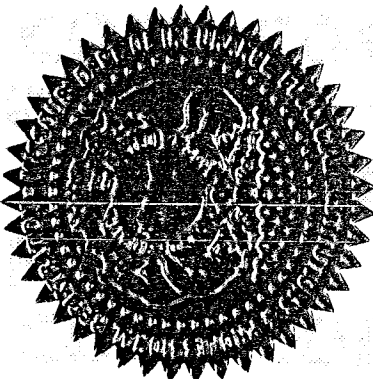
ORDER

After full consideration and review of the report of the financial examination of Old American Insurance Company for the period ended December 31, 2005, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Douglas M. Ommen, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, the findings and conclusions of the examination report are incorporated by reference and deemed to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo.

Based on such findings and conclusions, I hereby ORDER Old American Insurance Company, to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) implement, and verify compliance with, each item mentioned in the General Comments and/or Recommendations section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

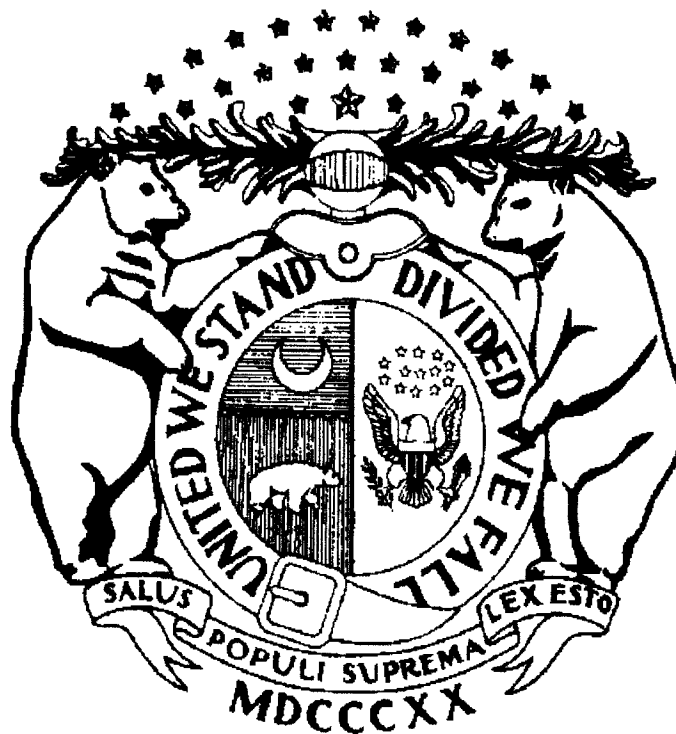
So ordered, signed and official seal affixed this July 18, 2007.

DOUGLAS M. OMMEN, Director
Department of Insurance, Financial Institutions
and Professional Registration



**REPORT OF THE
ASSOCIATION FINANCIAL EXAMINATION OF
OLD AMERICAN INSURANCE COMPANY**

**AS OF
DECEMBER 31, 2005**



**STATE OF MISSOURI
DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTION AND
PROFESSIONAL REGISTRATION
JEFFERSON CITY, MISSOURI**

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Kansas City, Missouri
April 6, 2007

Honorable Alfred W. Gross, Commissioner
Virginia Bureau of Insurance
Chairman of Financial Condition (EX4) Subcommittee
Southeastern Zone Secretary

Honorable Merle Scheiber, Commissioner
South Dakota Division of Insurance
Midwestern Zone Secretary

Honorable Douglas M. Ommen, Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65101

Gentlemen:

In accordance with your financial examination warrant, a full scope association financial examination has been made of the records, affairs and financial condition of

Old American Insurance Company

hereinafter referred to as such, as Old American, or as the Company. Its administrative office is located at 3520 Broadway, Kansas City, Missouri 64111, telephone number 816-753-7000. This examination began on August 29, 2006, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The prior full scope association financial examination of Old American was made as of December 31, 2002, and was conducted by examiners from the State of Missouri representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC), with no other zones participating.

The current full scope association financial examination covered the period from January 1, 2003, through December 31, 2005, and was conducted by examiners from the State of Missouri, representing the Midwestern Zone of the NAIC, with no other zones participating.

This examination was conducted concurrently with the examinations of the parent company, Kansas City Life Insurance Company (Kansas City Life) and an affiliate, Sunset Life Insurance Company of America (Sunset Life).

This examination also included the material transactions and/or events occurring subsequent to the examination date, which are noted in this report.

Procedures

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the NAIC, except where practices, procedures and applicable regulations of the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP) and statutes of the State of Missouri prevailed.

The examiners relied upon information supplied by the Company's independent auditor, KPMG, LLP, of Kansas City, Missouri, for its audit covering the period from January 1, 2005, through December 31, 2005. Information relied upon included attorney letters, tests of controls, and narrative descriptions of processes and controls.

Comments - Previous Examination

Listed below are comments, recommendations and notes of the previous examination report dated as of December 31, 2002, and the subsequent response or action taken by the Company.

Board of Directors

Comment: The Company was directed to appoint twelve directors to its Board of Directors to be in compliance with its Bylaws or amend the Bylaws to allow for a smaller number of directors.

Company's Response: The Company did not formally respond to this comment.

Current Findings: No additional problems were noted during the current examination.

Other Deposits

Comment: The Company was directed to ensure that its assets pledged as collateral to the Federal Home Loan Bank, including the pledged value of the common stock of Federal Home Loan Bank owned by the Company, were properly disclosed on Schedule E – Part 3 (Special Deposits) of the Annual Statement in the future.

Company's Response: The Company agreed to comply with the recommendation.

Current Findings: This problem continued during the years under the current examination. See the Statutory Deposits section of this report under “Other Deposits” for more explanation.

Accounts and Records

Comment: The Company was directed to reduce and possibly eliminate the unusual complexity in its accounting system by abandoning the non-ledger approach and replacing the current system with one that assigns general ledger numbers to accounts that can easily be traced to the Annual Statement lines.

Company's Response: The Company indicated a willingness to convert to a new automated system that would resolve the problems identified.

Current Findings: Beginning in 2005, the Company implemented Hyperion Financial Management system software, which has the capability to reconcile general ledger accounts balances and adjustments to the amounts reported on the Annual Statement line items. Although some implementation and transition issues were noted, overall, it appears the new system should resolve the issues identified in the prior comment.

Custodial Agreements

Comment: It was noted that the Company's custodial agreement with United Missouri Bank was deficient, as it did **not** contain an acknowledgment by the custodian to assume liability for consequential damage that may arise out of loss or theft of the securities under custody. It was also noted that the Company could not provide a custodial agreement regarding securities on custody with Fidelity Investments. The Company was directed to obtain custodial agreements with each of the custodians and ensure that the agreement wordings reflect in its entirety the requirements of the NAIC with respect to custodial agreements.

Company's Response: The Company agreed to comply with the recommendation.

Current Findings: The Company provided an updated custodial agreement for the various custodial accounts except for the custodial accounts with Fidelity Investments. The one exception deals with the recommendation for a custodial agreement with Fidelity Investments Company. The issue has been addressed with the Company under separate cover.

Cash and Short-term Investments

Comment: It was noted that the Company improperly reported payables to Kansas City Life originating from related party transactions as part of the cash account. The Company was directed to report as its cash only those amounts that actually reside with the bank and can be verified through direct confirmation by the examination process.

Company's Response: The Company agreed to comply with the recommendation.

Current Findings: The Company addressed this specific issue with no additional exception noted.

Payable/Receivable to/from Parent, Subsidiaries and Affiliates

Comment: It was noted that Kansas City Life has an account with State Street Bank for payment of claims for itself and its insurance subsidiaries, including Old American for the personal growth account business. At year-end 2002, Old American owed Kansas City Life for unreimbursed claims paid on its behalf by Kansas City Life. However, Old American improperly reported the unreimbursed amount as part of cash, which understated the amount payable to its parent. The Company was directed to properly and accurately report the underlying transaction in the future.

It was also noted that the Company improperly reported net payables from related party transactions on the intercompany receivable line of the Annual Statement. The Company was advised to ensure that the final account balance resulting from related party transactions is properly classified (receivable or payable) on the Annual Statement.

It was further noted that the underlying transaction between Kansas City Life and Old American as noted above constituted an intercompany transaction in accordance with the Missouri holding company law. The Company was advised to submit an agreement to the DIFP for approval in accordance with Section 382.195 RSMo (Prohibited Transactions, Exceptions).

Company's Response: The Company agreed to implement the recommendations.

Current Findings: The Company has corrected the reporting problems indicated, including drawing up a management agreement to document the related party aspect of the transaction.

Remittances and Items Not Allocated

Comments: It was noted that the Company's accounting and reporting for the above line of the Annual Statement was inconsistent with prescribed standards and procedures. The Company was advised to ensure that, per SSAP #64 (Offsetting and Netting of Assets and Liabilities), unrelated debits and credits within the same general ledger account or between two or more general ledger accounts are not netted, but included as distinct assets/liabilities on the Annual Statement. Overall, the Company was advised to ensure compliance with applicable standards in completing the Annual Statement.

Company's Response: The Company indicated that a thorough review of the items contained in the account will be made to ensure compliance with applicable reporting standards and guidelines.

Current Findings: Additional reporting problems were noted in this account during the course of this examination. See Note #1 on the Notes to the Financial Statements section of this report for more details.

HISTORY

General

Old American Insurance Company was founded by members of Thomas McGee & Sons, a Kansas City based insurance agency. The Company was incorporated on December 11, 1939, and commenced business on December 30, 1939, under the laws of the State of Missouri. The Company currently operates as a stock life insurance company, in accordance with the provisions of Chapter 376, Revised Statutes of Missouri (RSMo) (Life and Accident Insurance).

On November 25, 1986, the Company was purchased by C.S.B.I. Corp., an indirect wholly owned subsidiary of CenTrust Savings Bank, which was a Florida state chartered savings and loan association.

In November 1991, Kansas City Life purchased 100% of the stock of Old American and its subsidiaries, Missouri American Insurance Company and Old American Service Corporation. Subsequently, Missouri American Insurance Company was merged into Old American and Old American Service Corporation was dissolved in December 1992.

Capital Stock

The Company is authorized to issue 800,000 shares of \$5.00 par value stock, which is separated into 192,630 shares of Class A preferred stock, and 303,685 shares of Class B common non-voting stock and 303,685 shares of common voting stock.

As of December 31, 2005, 172,346 shares of Class A preferred non-voting stock, 303,685 shares of Class B common non-voting stock and 299,437 shares of common voting stock were issued and outstanding, resulting in total par values of \$963,150 for the Class A preferred non-voting stock and \$3,036,850 for the combined voting and nonvoting common stock. Treasury stock consisted of 20,284 shares of Class A preferred stock and 4,248 shares of Class B common stock valued at \$101,420 and \$133,446, respectively.

Dividends

The following dividends were declared and paid to the sole shareholder, Kansas City Life during the period under examination:

<u>Period</u>	<u>Amount Paid</u>
2003	\$22,275,000
2004	5,025,000
2005	6,700,000
Total Paid	<u>\$34,000,000</u>

The 2003 dividend payment includes an extra-ordinary dividend portion of \$20,000,000. Also, in 2006, the Company paid an extra-ordinary dividend of \$3,000,000. Both of these transactions were approved by DIFP in accordance with applicable statutory provisions.

Management

The management of the Company is vested in a Board of Directors that is elected by the sole shareholder, Kansas City Life Insurance Company. The Company's Bylaws specify that the number of directors shall be nine (9), however, the Bylaws allow the Board of Directors to change the number of Directors not to exceed twenty-one (21). On July 19, 2001, the Board of Directors passed a resolution stipulating the number of Board of Directors to be ten (10) members. Presented below is the Board of Directors elected and serving as of December 31, 2005:

<u>Name</u>	<u>Address</u>	<u>Principal Occupation and Business Affiliation</u>
R. Philip Bixby	Kansas City, Missouri	President, CEO & Chairman of the Board, Kansas City Life
Walter E. Bixby	Kansas City, Missouri	Vice Chairman, Kansas City Life
Charles R. Duffy, Jr.	Independence, Missouri	Senior Vice President, Kansas City Life
Gary K. Hoffman	Kansas City, Missouri	Vice President, Associate General Counsel and Secretary, Old American
James J. Holmes	Kansas City, Missouri	Vice President, Old American
Nancy B. Hudson	Lander, Wyoming	Director, Kansas City Life
Tracy W. Knapp	Overland Park, Kansas	Senior Vice President, Kansas City Life
Robert J. Milroy	Prairie Village, Kansas	Vice President, Old American
Mark A. Milton	Leawood, Kansas	Senior Vice President, Kansas City Life
Holly A. Ropp	Kansas City, Missouri	Assistant Vice President, Old American

The Company's Bylaws authorize an Executive Committee, an Investment Committee, and a Nominating and Compensation Committee and any other committees that may be needed. The Company has not established an Investment Committee as the Investment Committee of Kansas City Life is performing these functions. The established committees and the members elected and serving as of December 31, 2005, were as follows:

Executive Committee

R. Philip Bixby
Walter E. Bixby
Gary K. Hoffman
Tracy W. Knapp

**Nominating and
Compensation Committee**

R. Philip Bixby
Walter E. Bixby
Gary K. Hoffman
Tracy W. Knapp

Retirement Committee

John A. Showalter
Robert C. Miller

The senior officers elected and serving as of December 31, 2005, were as follows:

R. Phillip Bixby	Chairman of the Board
Walter E. Bixby	President
Tracy W. Knapp	Chief Financial Officer
Gary K. Hoffman	Vice President and Secretary
James J. Holmes	Vice President – National Sales Manager
Brent C. Nelson	Vice President and Controller
Mary McCalla	Treasurer
Stephen A. Bader	Chief Actuary

Conflict of Interest

The Company requires its directors and officers to annually complete a conflict of interest questionnaire. Completed questionnaires were reviewed for all directors and officers for the examination period. No material conflicts were noted.

Corporate Records

The Company's Articles of Incorporation and Bylaws were reviewed for the period under examination. The Articles of Incorporation were not amended during the examination period. The Bylaws were amended on November 4, 2005, to change the date of the shareholders annual meeting from the Thursday immediately preceding the fourth Monday in January to the Friday of the week preceding the first quarter meeting of the Board of Directors of Kansas City Life.

The minutes of the Board of Directors' meetings, committee meetings, and sole shareholder meetings were reviewed for proper approval of corporate transactions. In general, the minutes appear to properly reflect and approve the Company's major transactions and events for the period under examination.

Acquisitions, Mergers and Major Corporate Events

None

Surplus Debentures

No surplus debentures were issued or outstanding for the period under examination.

AFFILIATED COMPANIES

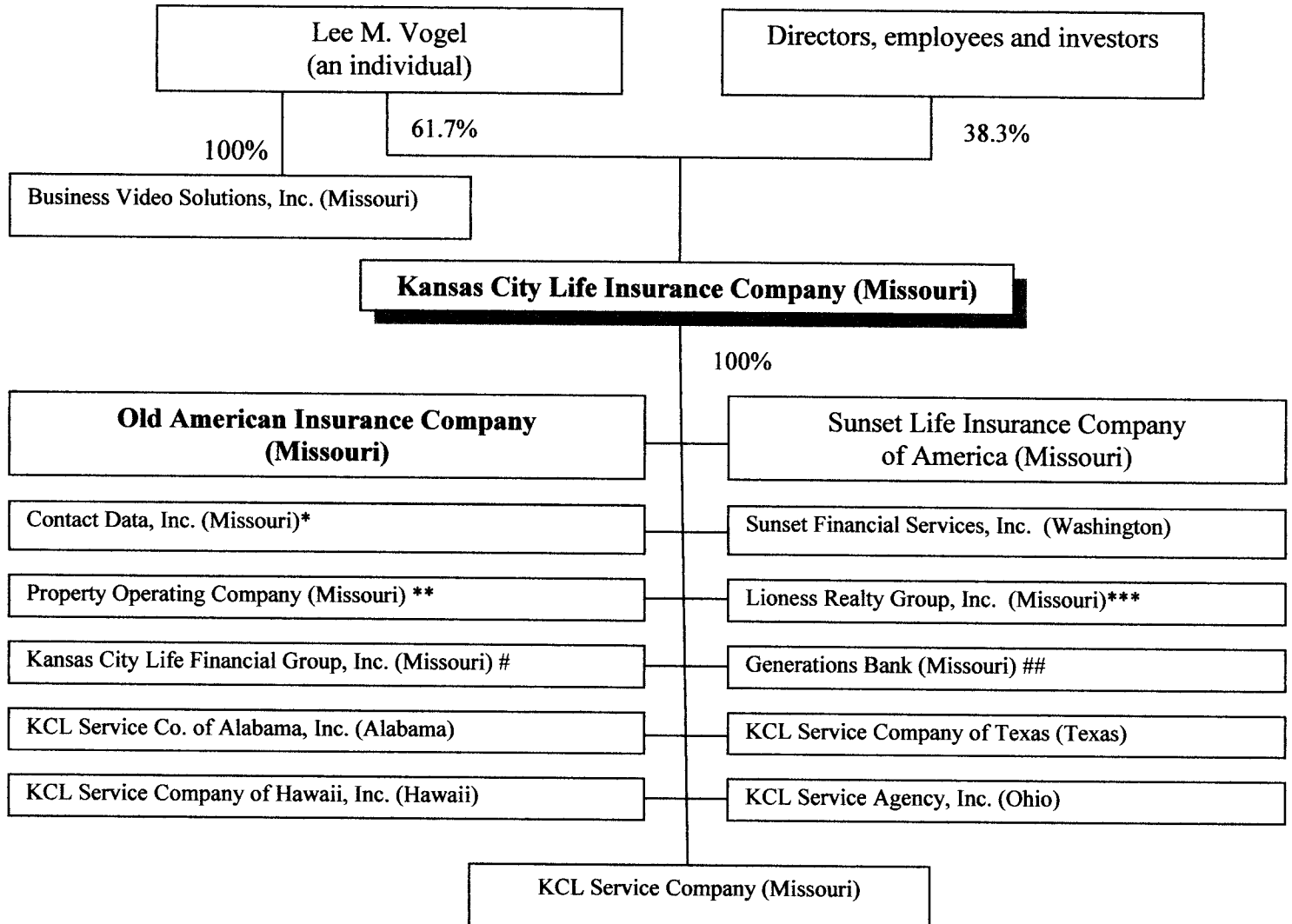
Holding Company, Subsidiaries and Affiliates

The Company is a member of an Insurance Holding Company System as defined by Section 382.010 RSMo (Definitions). An Insurance Holding Company System Registration Statement was filed by the parent, Kansas City Life, for each year of the examination period on behalf of itself and its subsidiaries, including Old American. Old American is a wholly owned subsidiary of Kansas City Life. Lee M. Vogel, an individual and a resident of the State of Missouri, is the ultimate controlling person within the holding company system of Kansas City Life. [See the Kansas City Life examination report for additional details regarding the ultimate controlling person].

The parent, Kansas City Life Insurance Company, is a life and health insurer organized as a Missouri corporation. The holding company system includes another life and health insurer, Sunset Life and eleven other affiliates that are related in part or entirely to the insurance operations. Sunset Financial Services, Inc. (SFS), a Washington corporation, markets all of Kansas City Life and Sunset Life variable products and performs investment services for policyholders. Generations Bank, a federal stock savings bank chartered in Missouri, administers personal growth accounts (PGA) for Kansas City Life and its insurance subsidiaries' policyholders. Policyholder proceeds from claims and surrenders are deposited into a checking account with Generations Bank, the policyholder then becomes a customer of Generations Bank and can draw on the proceeds. Generations Bank also provides typical banking services to customers unrelated to the insurance operations. As of January 8, 2007, Generations Bank was sold to a third party. The other nine subsidiaries are currently inactive, terminated, or do not have any significant operations.

Organizational Chart

The following organizational chart depicts Old American's ownership and holding company structure, as of December 31, 2005:



*Terminated its corporate charter with the State of Missouri effective December 19, 2003.

** Terminated its corporate charter with the State of Missouri effective December 29, 2003.

*** Terminated its corporate charter with the State of Missouri effective August 27, 2004.

Terminated its corporate charter with the State of Missouri effective July 1, 2004.

Sold effective January 8, 2007.

Intercompany Transactions

The Company's intercompany agreements are outlined below.

1. Type: Tax Allocation Agreement

Affiliates: Kansas City Life and Sunset Life

Effective: January 1, 1988

Terms: A consolidated federal income tax return is filed each year by Kansas City Life. The portion of the consolidated tax liability that is allocated to Old American and Sunset Life is based upon the subsidiary's liability on a stand-alone basis. Intercompany tax settlements are made approximately 30 days after the filing of the tax return.

2. Type: Cost Sharing Agreement

Affiliate: Kansas City Life

Effective: May 22, 1992

Terms: Kansas City Life employees perform necessary services for Old American. These services include data processing, personnel, investment, tax, management, and other administrative services. Salaries and benefits are allocated based upon a time study for the applicable employees. Any expenses that are specifically for Old American are not subject to allocation and are charged 100% to Old American. Allocated costs are to be reimbursed at least on a quarterly basis.

3. Type: Loan Guarantee

Affiliate: Kansas City Life Insurance Company

Effective: August 4, 1999

Terms: Kansas City Life has guaranteed the indebtedness of Old American on borrowings under a Commerce Bank \$20,000,000 Line of Credit.

4. Type: Inter-Company Retained Asset Program for Benefit Payments

Affiliate: Kansas City Life and Old American

Effective: January 1, 2006

Terms: Benefit payments for all parties will be paid through a Kansas City Life corporate account maintained with State Street Bank and BISYS (State Street). Through Kansas City Life's contract with State Street, retained asset checking accounts are established for beneficiaries of death claims, and cash surrenders in excess of \$10,000, for each of the parties to this agreement. Accounts are identified for each company based on branch codes built into the beneficiary's checking account number. When beneficiaries submit checks for payment they are paid from the Kansas City Life corporate account. Kansas City Life will

maintain sufficient cash balance in the corporate account for payment of all submitted checks made from all beneficiaries. Accounts receivable and payable balances will be established between Kansas City Life and its respective subsidiaries when checks are submitted with their branch codes. Sunset Life and Old American will settle the balances of the payables monthly. In addition, bank service fees will be paid by each party based on their proportional share of the fees. Fees identified by the respective branch code of the account as being incurred by one party will be paid by that party.

The amounts (paid) to and received from parent during the period under examination under the above agreements were as follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Cost Sharing Agreement – Old American:			
Paid to Kansas City Life	(\$3,490,000)	(\$3,456,000)	(\$3,420,000)
Dividend Payments:			
Paid to Kansas City Life	(6,700,000)	(5,025,000)	(22,275,000)
Federal Income Tax Allocation Agreement:			
(Paid to)/Received from – Kansas City Life	210,000	(2,500,000)	(2,600,000)
Inter-Company Retained Asset Program for			
Benefit Payments:			
Paid to Kansas City Life	(2,334,100)	(2,840,235)	(3,253,356)
Net Amount (Paid) or Received	<u>(\$12,314,100)</u>	<u>(\$13,821,235)</u>	<u>(\$31,548,356)</u>

There were additional directly identifiable expenses paid by Kansas City Life on behalf of Old American during the examination period that are not included in the schedule above and were outside of the terms and scope of the Cost Sharing Agreement. Old American did not tabulate the total amount paid by and/or reimbursed to Kansas City Life under this arrangement.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured along with Kansas City Life and other affiliates on a financial institution bond with a liability limit of \$5,000,000 and a \$100,000 deductible. This coverage complies with the suggested minimum amount of fidelity insurance according to NAIC guidelines. Old American is also a named insured on additional insurance policies that include, but are not limited to, the following: commercial general liability, commercial property, workers compensation, commercial umbrella, directors and officers liability, and business automobile.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

Old American has employees for the customer service, sales and marketing, new business, claims, and legal functions. Pursuant to a Cost Sharing Agreement, other administrative functions of Old American's operations are performed by the employees of the parent, Kansas City Life and certain functions of Kansas City Life's operations are performed by employees of Old American. The Company is allocated a percentage of the benefit costs for Kansas City Life employees, pursuant to the Cost Sharing Agreement.

A variety of standard benefits are provided to the Company's employees and to Kansas City Life employees. These benefits include, but are not limited to, health insurance, dental insurance, life insurance, a defined benefit pension plan, and a 401(k) savings and profit sharing plan. Post-retirement health insurance is provided to retirees that meet eligibility requirements. The Company appears to have properly accounted for its direct and allocated employee benefits in the financial statements.

The Company's agents located throughout the United States may qualify for limited benefits upon meeting certain pre-determined requirements. These benefits include group life and accidental death and dismemberment coverage, and nonqualified deferred compensation plans. The Company appears to have properly accounted for its direct and allocated employee benefits costs in the financial statements.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Missouri Department of Insurance, Financial Institution and Professional Registration as of December 31, 2005, as reflected below, were sufficient to meet the capital deposit requirements for the State of Missouri in accordance with Section 376.290 RSMo (Deposit and transfer of securities). The Company's required deposit for Missouri was \$600,000. The funds on deposit as of December 31, 2005, were:

<u>Type of Security</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Statement Value</u>
U.S. Treasury Notes	\$2,000,000	\$1,960,156	\$1,986,552

Deposits with Other States

The Company also has funds on deposit with other states in which it is licensed. Those funds on deposit as of December 31, 2005, were:

<u>State</u>	<u>Type of Security</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Statement Value</u>
Georgia	FNMA	\$100,000	\$96,727	\$ 98,100
Massachusetts	U.S. Treasury Notes	100,000	97,508	100,039
New Mexico	U.S. Treasury Notes	125,000	124,346	124,643
North Carolina	U.S. Treasury Notes	<u>525,000</u>	<u>520,043</u>	<u>529,808</u>
Total		<u>\$850,000</u>	<u>\$838,624</u>	<u>\$852,590</u>

Other Deposits

The Company also had pledged assets to the Federal Home Loan Bank as collateral for \$5,000,000 of loans outstanding at the end of 2005, as well as for future borrowings. The pledged assets are maintained in a separate bank account. The pledged assets on deposit as of December 31, 2005 were as follows:

<u>Type of Securities</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Statement Value</u>
Bonds	\$ 14,939,662	\$ 14,776,175	\$ 15,032,978
Federal Home Loan Bank Stock	<u>647,951</u>	<u>647,951</u>	<u>647,951</u>
Total	<u>\$15,587,613</u>	<u>\$15,424,126</u>	<u>\$15,680,929</u>

It should be noted that the value of the Company's investment in Federal Home Loan Bank, consisting of 6,118 shares of common stock, which is also pledged as required by the loan documents, was not properly reported as an encumbered asset. The Company is aware of the required disclosures under the NAIC Annual Statement instructions with respect to assets held in trust, pledged and/or otherwise encumbered. Assets having these characteristics are not available for policyholders, claimants, and ordinary creditors of the Company. Accordingly, such assets must be reported on the Special Deposits schedule of the Annual Statement. The Company is directed to abide by this disclosure requirement.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

Old American Insurance Company is licensed by the Missouri Department of Insurance, Financial Institutions and Professional Registration under Chapter 376 RSMo (Life, Health and Accident Insurance). As of December 31, 2005, the Company was licensed to transact the business of insurance in 46 states and the District of Columbia. As of December 31, 2005, the Company had no pending licenses and was **not** licensed in the states of Alaska, Hawaii, New Hampshire and New York.

The Company's primary products are "final expense" policies to pay for funeral and burial expenses and income replacement policies. These life products are marketed toward the senior citizen market. The individual life business accounted for 96% of total direct written premiums in 2005. An accident and health product, "Home Health Care," is currently sold on a renewal basis only and no new policies have been issued since 1993.

Old American sells its products mainly through agents who rely on leads generated from direct mail solicitation, television advertising, and telemarketing. The Company utilizes approximately 80 agencies located throughout the United States to sell its products.

The parent, Kansas City Life, has an internal audit staff that performs agency audits. During the examination period, audits concerning agency consulting, market conduct/compliance, agency fraud investigations and premium collection activities were performed.

Policy Forms & Underwriting

Advertising & Sales Materials

Treatment of Policyholders

The DIFP has a market conduct staff that performs a review of these issues and generates a separate market conduct report. Old American's most recent market conduct examination report by the DIFP was dated October 3, 2002 and was issued on February 14, 2005. This report did not include any material findings that could have a significant effect on the Company's financial position.

REINSURANCE

General

The Company's premium and annuity activity on a direct written, assumed and ceded basis, for the period under examination, is detailed below:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Direct Business	\$70,105,330	\$73,057,097	\$75,389,853
Reinsurance Assumed	0	0	0
Reinsurance Ceded:			
Affiliates	0	0	0
Non-affiliates	<u>(5,100,271)</u>	<u>(5,744,880)</u>	<u>(6,597,214)</u>
Net Premiums Written	<u>\$65,005,059</u>	<u>\$67,312,217</u>	<u>\$68,792,639</u>

Assumed

The Company does not assume any business.

Ceded

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer fails to perform its obligations under the reinsurance agreement.

Old American's only significant agreement for ceded life business is a coinsurance agreement with Employers Reassurance Corporation, effective December 1, 1989. This agreement cedes 100% of the risks for certain whole life policies issued prior to December 1, 1986. As of December 31, 2005, the ceded insurance in-force and ceded reserves for this agreement were \$62,636,323 and \$30,682,244 respectively, representing 99.9% of both totals.

The Company has two significant reinsurance agreements for accident and health business that pertain to policies written for home health care and nursing care. The Company no longer writes new policies on this line of business, only renewals are in effect.

The first agreement is with GE Reinsurance Corporation, effective January 1, 1989, which cedes 50% of the benefits payable on these policies. The agreement was effected by Benfield Greig Group plc, acting as the reinsurance intermediary.

The second agreement was executed with UNUM Life Insurance Company of America (UNUM Life), effective October 1, 1998, to cede the remaining 50% of the liabilities for these policies to UNUM Life. UNUM Life, under a Claims and Administration Services Agreement, provides all claims processing and policy administration for the insured policyholders on behalf of Old American. As of December 31, 2005, the ceded premiums and ceded reserves for these agreements were \$1,791,878 and \$22,102,993 respectively, representing 99.8% of both totals.

ACCOUNTS AND RECORDS

General

The Company's financial statements were audited by the CPA firm, KPMG, LLP, of Kansas City, Missouri, for all years in the examination period.

Policy and claim reserves were reviewed and certified by Stephen A. Bader, FSA, MAAA, for all years in the examination period. Mr. Bader is an employee of Kansas City Life.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of Old American for the period ending December 31, 2005. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the “Notes to the Financial Statements.” The failure of any column of numbers to add to its respective total is due to rounding or truncation.

There may have been additional differences found in the course of this examination, which are not shown in the “Notes to the Financial Statements.” These differences were determined to be immaterial concerning their effect on the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual Annual Statement item.

Assets

	<u>Ledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$173,944,204		\$173,944,204
Preferred Stocks	1,255,708		1,255,708
Common Stocks	647,951		647,951
Mortgage Loans on Real Estate	33,294,687		33,294,687
Contract Loans	8,536,816		8,536,816
Cash and Short-term Investments	4,257,272		4,257,272
Other Invested Assets	4,257,477	\$1,420,111	2,837,366
Investment Income Due and Accrued	2,547,074		2,547,074
Uncollected Premiums and Agents' Balances in Course of Collection	578,594	281,332	297,262
Deferred Premiums, Agents' Balances and Installments Booked but Deferred and not yet Due	13,960,257		13,960,257
Amounts Recoverable from Reinsurers	1,051,735		1,051,735
Net Deferred Tax Asset	21,353,878	17,864,251	3,489,627
Guaranty Funds Receivable or on Deposit	24,617		24,617
Electronic Data Processing Equipment	61,644		61,644
Furniture and Equipment	26,778	26,778	0
Other Assets Non-Admitted	<u>335,933</u>	<u>335,933</u>	<u>0</u>
TOTAL ASSETS	<u>\$266,134,625</u>	<u>\$19,928,405</u>	<u>\$246,206,220</u>

Liabilities, Surplus and Other Funds

Aggregate Reserve for Life Contracts	\$200,155,020
Aggregate Reserve for Accident and Health Contracts	753,419
Liability for Deposit-type Contracts	161,324
Contract Claims – Life	5,604,400
Contract Claims – Accident and Health	242,046
Premiums and Annuity Considerations Received in Advance	236,100
Interest Maintenance Reserve	172,488
Commissions to Agents Due or Accrued	41,408
General Expenses Due or Accrued	1,517,371
Taxes, Licenses and Fees Due or Accrued	676,000
Current Federal Income Taxes	638,075
Unearned Investment Income	340,240
Amounts Withheld or Retained	2,430,854
Amounts Held for Agents' Account	119,227
Remittances and Items Not Allocated Note 1	1,218,897
Borrowed Money	5,020,365
Asset Valuation Reserve	2,100,000
Payable to Parent, Subsidiaries and Affiliates	24,221
Aggregate Write-Ins for Liabilities:	
Funds Due Under Reinsurance Treaties in Authorized Companies	188,000
Uncashed Checks Pending Escheatment	629,074
Reserve for Additional Expense on Reinsurance Ceded	358,980
TOTAL LIABILITIES	\$222,627,509
Common Capital Stock	3,036,850
Preferred Capital Stock	963,150
Gross Paid In and Contributed Surplus	93,920
Unassigned Funds (Surplus)	19,719,661
Less Treasury Stock:	
Common Stock	(133,446)
Preferred Stock	(101,420)
Capital and Surplus	<u>\$23,578,715</u>
TOTAL LIABILITIES AND SURPLUS	<u>\$246,206,224</u>

Summary of Operations

Premiums and Annuity Considerations	\$65,005,059
Net Investment Income	12,874,839
Amortization of Interest Maintenance Reserve	70,908
Commission and Expense Allowances on Reinsurance Ceded	740,924
Miscellaneous Income	<u>9,803</u>
TOTAL	<u>\$78,701,533</u>
Death Benefits	38,813,061
Matured Endowments	88,821
Disability Benefits and Benefits Under Accident & Health Contracts	367,111
Surrender Benefits and Withdrawals for Life Contracts	4,601,670
Interest and Adjustments on Contract and Deposit-type Contract Funds	160,933
Payments on Supplementary Contracts with Life Contingencies	6,636
Increase in Aggregate Reserves for Life and Accident & Health Contracts	1,379,082
Commissions on Premiums and Deposit-type Contract Funds	11,227,556
General Insurance Expenses	12,289,095
Insurance Taxes, Licenses and Fees	1,716,216
Increase in Loading on Deferred and Uncollected Premiums	(176,405)
Aggregate Write-is for Deductions: Tax Interest	<u>(304)</u>
TOTAL	<u>\$70,473,472</u>
NET GAIN FROM OPERATIONS	\$8,228,061
Federal Income Taxes Incurred	(2,470,372)
Net Realized Capital Gains and Losses	<u>1,572,265</u>
NET INCOME	<u>\$7,329,954</u>

Capital and Surplus Account

Capital and Surplus, December 31, 2004	\$23,823,482
Net Income	7,329,954
Change in Net Unrealized Capital Gains or (Losses)	42,324
Change in Non-Admitted Assets	(1,614,238)
Change in Asset Valuation Reserve	50,000
Change in Net Deferred Income Tax	647,198
Dividends to Stockholders	<u>(6,700,000)</u>
Net Change in Capital and Surplus	<u>(\$244,762)</u>

CAPITAL AND SURPLUS, DECEMBER 31, 2005	<u>\$23,578,720</u>
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Notes to the Financial Statements

Note 1 – Remittances and Items Not Allocated **\$1,218,897**

As noted in **two** prior examinations, the Company continues to have reporting problems regarding transactions in this account. The problems can be summarized as follows: 1) most of the general ledger accounts included in the Annual Statement balance included both debits and credits, which were netted and included as a single amount for Annual Statement purposes. Per SSAP #64 (Offsetting and Netting of Assets and Liabilities) only debits and credits for the same party may be offset - the Company cannot offset a liability to one policyholder with an asset due from a different policyholder. Any debit balances should be shown on the Asset page of the Annual Statement (on the appropriate line) and a determination of admissibility made based on SSAP #4 (Assets and Nonadmitted Assets), and 2) several of the general ledger accounts with credit balances did not meet the criteria for reporting on this line of the Annual Statement. Per the NAIC Annual Statement instructions and SSAP #67, paragraph 9 (Other Liabilities), Remittances and Items Not Allocated line should include "cash receipts that cannot be identified for a specific purpose or, for other reasons, cannot be applied to a specific account when received". The Company included claims payment liabilities, reinsurance liabilities, garnishments, etc., which clearly do not meet the above definition. Simply stated, as a matter of accounting policy, the Company is improperly reporting a variety of transactions in this line of the Annual Statement that should be separated and reported in different lines pursuant to the requirements of the NAIC Annual Statement instructions and the applicable SSAPs. Henceforth, the Company should ensure that, per SSAP #64, unrelated debits and credits within the same general ledger account or between two or more general ledger accounts are not netted, but included as distinct assets/liabilities on the Annual Statement. In addition, the Company

should ensure it follows reporting guidance provided by the NAIC's SSAP #67 and Annual Statement instructions guidance in completing the Annual Statement. Transactions not meeting these applicable instructions and standards should be included in the appropriate line of the Annual Statements other than Remittances and Items Not Allocated.

Examination Changes

--None--

General Comments and/or Recommendations

Other Deposits (page 13)

The Company should ensure that **all** of its assets placed in a trust and/or otherwise encumbered, including the value of its investment in the common stock of Federal Home Loan Bank, which is also pledged to the Federal Home Loan Bank pursuant to the loan agreement, are properly disclosed on Schedule E - Part 3 (Special Deposits) schedule of the Annual Statement.

Remittances and Items Not Allocated (page 19)

As have been documented in **two** consecutive examination reports, the Company's accounting and reporting for this line of the Annual Statement is inconsistent with prescribed standards and procedures. The Company should implement the following action steps to become compliant with the applicable rules and standards:

- As a matter of accounting policy, desist from netting unrelated debits and credits within the same general ledger accounts pursuant to the requirements of SSAP #64.
- Review the language and the underlying guidance provided by SSAP #67, paragraph 9 and the NAIC's Annual Statement instructions related to this line of the Annual Statement and design a record keeping policy on how to record and report on related transactions, which must rely solely on these authoritative pronouncements without regard to any other guidance that may appear plausible but, is however, fundamentally flawed on its face as such guidance is more than likely to be inconsistent with the authoritative pronouncements, comprising SSAP #64, #67 and the NAIC's Annual Statement instructions for this line item.

- Ensure that transactions or events not having the characteristics contemplated by the authoritative pronouncements are separated out, recorded and reported in other lines of the Annual Statement other than Remittances and Items Not Allocated.

ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Old American Insurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Alvin Garon, CFE, Karen Baldree, CFE, Leslie Nehring, CFE and Steven Koonse, CFE, examiners for the Missouri Department of Insurance, Financial Institutions and Professional Registration also participated in this examination. Angela Campbell CFE, Computer Audit Specialist for the Missouri Department of Insurance, Financial Institutions and Professional Registration performed a review of the information system environment. Leon Langlitz, FSA, MAAA of Lewis & Ellis, Inc., also participated as a consulting actuary.

VERIFICATION

State of Missouri)
)
County of)

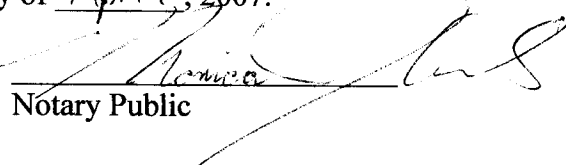
I, Levi N. Nwasoria, CPA, CFE on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.



Levi N. Nwasoria, CPA, CFE
Examiner-In-Charge
Missouri Department of Insurance, Financial
Institutions and Professional Registration

Sworn to and subscribed before me this 13th day of April, 2007.

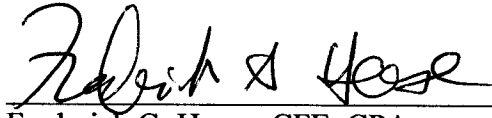
My commission expires: 3/10/2009


Notary Public

MONICA J. CURLS
Notary Public - Notary Seal
STATE OF MISSOURI
County of Jackson
My Commission Expires 3/10/2009
Commission # 05679768

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

A handwritten signature in black ink, appearing to read "Fred G. Heese", written over a horizontal line.

Frederick G. Heese, CFE, CPA

Audit Manager

Missouri Department of Insurance, Financial
Institutions and Professional Registration